

Message Text

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ORIGIN NEA-10

INFO OCT-01 SOE-02 AID-05 CEA-01 CIAE-00 COME-00
DODE-00 EB-08 DOE-11 H-01 INR-07 INT-05 L-03
NSAE-00 NSC-05 OMB-01 PM-05 USIA-06 OES-07 SP-02
SS-15 STR-06 TRSE-00 ACDA-12 ISO-00 /113 R

DRAFTED BY NEA/IRN: M JOHNSON:RR
APPROVED BY NEA/IRN: C W NAAS
EB/ORF/FSE:J TODD
DOE: B KRITZER (SUBS)
-----024504 170456Z /13
R 162018Z JAN 78
FM SECSTATE WASHDC
TO AMEMBASSY TEHRAN
INFO AMEMBASSY OSLO

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E.O. 11652: N/A

TAGS: ENRG, EFIN, IR

SUBJECT: IRANIAN LNG PROJECT

REFERENCE: TEHRAN 0242

1. DEPTOFFS MET WITH COLUMBIA LNG CORP. OFFICIALS
ORLOFSKY AND TOWLE TO DISCUSS COLUMBIA'S MEETINGS WITH
NATIONAL IRANIAN GAS COMPANY DELEGATION. THREE MAN
IRANIAN TEAM HEADED BY NIGC DIRECTOR MOSSADEGHI,
CONCLUDED MEETINGS ON JANUARY 13.

2. ORLOFSKY INDICATED TWO SIDES HAD MADE MUCH PROGRESS IN
WORKING TOWARD AGREEMENT ON GAS SALES CONTRACT.
DIFFERENCES ON NEARLY ALL ISSUES, INCLUDING PRICE, HAD
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BEEN VIRTUALLY ELIMINATED. ORLOFSKY SAID HE WAS
"SURPRISED" BY APPARENT EAGERNESS OF MOSSADEGHI TO
CONCLUDE AGREEMENT AS SOON AS POSSIBLE. STATE OF PLAY
NOW CALLS FOR COLUMBIA TO SECURE APPROVAL OF DRAFT

CONTRACT FROM ITS BOARD WHILE NIGC DOES SAME WITH
ITS IRANIAN PRINCIPALS. THIS MIGHT OCCUR BY LATE

JANUARY OR MID FEBRUARY.

3. ON MATTER OF PRICE, ORLOFSKY SAID TWO SIDES HAD ARRANGED "FIXED PRICE" OF "ABOUT" \$2.10 MMBTU/FOB WHICH WOULD REMAIN UNCHANGED THROUGH 1982. IN ARRIVING AT THIS PRICE, IRANIANS HAD PRESSED FOR "COST-JUSTIFIED" RATE OF RETURN WHICH THEY SET AT 18 PERCENT ON PRE-TAX BASIS, USING DISCOUNTED CASH FLOW OVER LIFE OF CONTRACT (22-23 YEARS). AFTER 1982, FOB PRICE WOULD ESCALATE USING FORMULA TIED, ON 50/50 BASIS, TO CHANGES IN NO. 2 FUEL OIL PRICES IN NEW YORK HARBOR AND IRANIAN CRUDE OIL PRICES. WELLHEAD PRICE, ACCORDING TO ORLOFSKY, AMOUNTED TO \$0.35/MMBTU.

4. ORLOFSKY ESTIMATED CURRENT PROJECT COSTS AT \$700 MILLION. OF THIS AMOUNT, THE NORWEGIANS WILL PROVIDE 90 PERCENT OF PROJECT FINANCING WHILE THE IRANIANS INTEND TO CONTRIBUTE THE REMAINDER. ORLOFSKY APPEARED CONFIDENT THAT PROJECT FINANCING WOULD POSE NO PROBLEM. PROCESSING CAPACITY OF MOSS-ROSENBERG TWO-TRAIN FLOATING LIQUEFACTION FACILITY SET AT ABOUT 325 MILLION CF/DAY. PLANT WOULD EMPLOY AIR PRODUCTS (ALLENTOWN, PA) CRYOGENIC EQUIPMENT.

5. COLUMBIA INITIALLY CONSIDERING SIX 125,000 CUBIC METER CRYOGENIC VESSELS TO MOVE LNG TO US. COMPANY HAS LIMITED OFFICIAL USE

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SUBMITTED WORLDWIDE REQUEST FOR PROPOSALS AND HAS RECEIVED ABOUT SIX SERIOUS REPLIES. COMPANY INTENDS TO MAKE OWN SHIPPING/CHARTERING ARRANGEMENTS ALTHOUGH IT ACCEPTED IRANIAN DESIRE TO HAVE "RIGHT OF REFUSAL" TO OWN TWO OF THE VESSELS. COLUMBIA HAS HELD PRELIMINARY DISCUSSIONS WITH MARAD REGARDING SHIP FINANCING.

6. COLUMBIA OFFICIALS GAVE NO PRECISE INDICATION AS TO THEIR PLANS FOR SEEKING CERTIFICATION WITH FERC. DEPT OFFS DISCUSSED RECENT PAC INDONESIA RULING AND POSSIBLE IMPLICATIONS IT MIGHT HAVE IN COLUMBIA'S CASE. ORLOFSKY AND TOWLE ACKNOWLEDGED THAT TWO MAJOR STUMBLING BLOCKS IN OBTAINING EVENTUAL USG APPROVAL WOULD BE (A) LNG PRICE ESCALATOR MECHANISM WHICH IS TIED TO OPEC CRUDE PRICES AND (B) COLUMBIA INSISTENCE ON ROLLED-IN PRICING WHICH COLUMBIA OFFICIALS SAID WOULD BE CHEAPER THAN ALASKAN GAS. CHRISTOPHER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: NATURAL GAS, PROGRAMS (PROJECTS)
Control Number: n/a
Copy: SINGLE
Draft Date: 16 jan 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978STATE011382
Document Source: CORE
Document Unique ID: 00
Drafter: M JOHNSON:RR
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780024-0184
Format: TEL
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780158/aaaabxgt.tel
Line Count: 111
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 928963e3-c288-dd11-92da-001cc4696bcc
Office: ORIGIN NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 TEHRAN 242
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 3767098
Secure: OPEN
Status: NATIVE
Subject: IRANIAN LNG PROJECT
TAGS: ENRG, EFIN, IR
To: TEHRAN
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/928963e3-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014